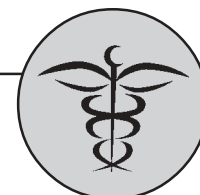


FLEXIBLE SPENDING ACCOUNTS - 2006

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Account Types

Medical

Annual Amounts

- Minimum: \$120
- Maximum: \$5,000/Employee

Qualifying Expense Examples

- Eye exams, contact lenses and solution, glasses, LASIK surgery, dental exams and services, chiropractic care, prescription drugs and insulin, hearing aids and exams, doctor visits, copays, and deductibles.
- Day care centers (must comply with state and local laws), baby-sitters, preschool, and general-purpose day camps.

Dependent Care

- Minimum: \$120
- Maximum: \$5,000/Family

Administrative cost is \$2.16 per month.

GENERAL INFORMATION

WHO IS ELIGIBLE?

Active employees eligible for State benefits are eligible for the Flexible Spending Account (FSA) Program.

Retirees are not eligible to participate.

There are limited opportunities to change your election during the plan year. Contributions can only be changed if you experience a family status change such as:

- marriage;
- divorce;
- birth of a baby;
- adoption of a baby;
- death of spouse/dependent child, or;
- a change in employment status which warrants the change.

The change must be "on account of" and "consistent with" the change in family status. For example, new dependents warrant increasing a medical FSA, not decreasing it. The change must be made within 63 days of the qualifying event.

HOW FSAs WORK

Flexible Spending Accounts (FSAs) work very much like tax-favored savings accounts. You can enroll in a Medical FSA to pay for family medical expenses not covered by insurance, and a dependent care FSA to pay for day care expenses.

You decide how much money you want to deposit in the FSA for the benefit year. That amount is then divided by 12 to determine the monthly election amount. Your selected amount is removed from your paychecks in 24 installments, first from any unused state contribution, and then from gross pay (before taxes) and deposited into your FSA. As you incur eligible expenses, you turn in a simple claim and receive payment. There is a monthly \$2.16 administration fee for one or both FSAs (\$25.92 per year).

Use It or Lose It!

Any money not used for qualified expenses incurred during the plan year is forfeited. This is known as the "use it or lose it" provision of Section 125 of the IRS code. Therefore, be conservative and accurate when estimating expenses for the plan year.

The Medical and Dependent Care FSAs are separate accounts. If you enroll in both, you may not use funds deposited in the Medical FSA for dependent care expenses, or vice-versa.

Getting Reimbursed

To be reimbursed for qualified expenses, submit a claim form and expense receipt (i.e. EOB or day care provider receipt) to ASI either by fax or mail at the address listed on the claim form. ASI will send reimbursement within 24 hours of receiving your expense claim. ASI mails claim forms when you sign up for an FSA; the forms are also available on ASI's web site. Expenses must be incurred during the plan year. This may or may not be the same time that you are billed or pay for the services or products.

TAX ISSUES

Since you receive pre-tax treatment on the money you place in an FSA, you cannot claim the items reimbursed to you through an FSA on your tax return. Health care expenses paid through an FSA are 100 percent tax exempt. On your tax return, non-FSA medical expenses are only deductible if they exceed 7.5 percent of your adjusted gross income. For most families, a Medical FSA provides more tax

benefit. Please consult your tax advisor for more information.

Because day care expenses are typically much greater than predictable out-of-pocket medical expenses, Dependent Care FSAs typically generate the greatest tax savings.

IMPORTANT!

You must re-enroll each year to participate in a Flexible Spending Account. Enrollment is not automatic!

Dependent FSA or Child Care Credit?

Generally, families with an adjusted gross income of \$28,000 or more will save more money with the flexible spending plan. However, you should check with your tax advisor concerning your circumstances. You cannot use the child care credit for any amounts reimbursed through the plan.

WILL A MEDICAL FSA ACCOUNT HELP YOU?

Medical FSAs may be used to reimburse out-of-pocket medical expenses (expenses not paid by insurance) which are allowed as medical deductions by the IRS on your federal tax return. The full amount you elect for the plan year is available after the first contribution is deposited, even though the full amount is not yet collected.

If you answer "yes" to any of the following questions, and you pay income taxes, a Medical FSA can save you money.

☐ Is anyone in your family planning on getting a hearing aid, contact lenses or glasses, or laser eye surgery?

☐ Do you expect to pay deductibles, coinsurance, or copayments under your medical and prescription drug insurance plans?

☐ Is anyone in your family planning on noncosmetic orthodontia treatment during the next year?

☐ Are you or another family member due for a crown or bridge work which requires a 50 percent copay?

Qualifying Health Care Expenses

For a complete list of qualifying health care expenses, refer to IRS Publication 502. Some examples include:

- Eye exams, contact lenses, contact lens solution, glasses, LASIK surgery
- Dental exams, cleanings, fillings, crowns, braces
- Chiropractic care
- Prescription drugs and insulin
- Hearing aids and exams
- Routine doctor visits
- Copays and deductibles

dependent for income tax purposes, such as an older child.

CLICK ON IT!

ASI's web site offers a wealth of resources for FSA participants:

- Find out how to file a paper claim, or print out a claim form.
- Look up the IRS guidelines of allowed services, including information regarding orthodontia, prescription eye wear, and contact lens solution claims.
- Print a form to sign up for direct deposit to your bank account, and get a personal e-mail notice of each deposit.
- Find out the status of your account using a personal identification number (PIN), which is printed on your ASI confirmation statement.

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☐ A dependent adult must be physically or mentally incapable of caring for himself or herself and must be dependent upon you for at least 50 percent of his or her financial support. Care may be provided either inside or outside your home. However, expenses outside your home are eligible only if the dependent regularly spends at least eight hours each day in your household.

Unlike the Medical FSA, Dependent FSA claims are reimbursed only after contributions have been deposited in the account.

Qualifying Day Care Expenses

For a complete list of qualifying day care expenses, refer to IRS Publication 503. Some examples include:

- Day care centers (must comply with state and local laws)
- Baby-sitters
- Preschool (before Kindergarten)
- General-purpose day camps

Ineligible Day Care Expenses

- Food or transportation
- Activity fees
- Education expenses (Kindergarten or higher)
- Overnight camps (including daytime portion)
- Private school tuition (Kindergarten or higher)

Ineligible Health Care Expenses

- Insurance premiums
- Warranties
- Service agreements
- Cosmetic procedures or products
- Health club dues
- Vitamins and herbs

DO YOU QUALIFY FOR A DEPENDENT CARE FSA?

The costs of child care and the care of dependent adults unable to care for themselves are very predictable. That predictability helps you determine how much money to put into a Dependent Care FSA. Under governing IRS statutes, the child care necessary for you and your spouse (if married) to work or attend school full time could be reimbursed from a Dependent Care FSA under the following circumstances:

☐ The amount to be reimbursed must not be greater than your or your spouse's annual earnings, whichever is lower.

☐ A dependent child must be younger than 13 and dependent upon you for at least 50 percent of his/her financial support. Care may be provided either inside or outside your home, but may not be provided by anyone considered your

MEDICAL FSA WORKSHEETS

ELECTING A MEDICAL FSA AMOUNT

This worksheet will help you decide an appropriate annual election for a Medical FSA. Estimate your total annual health care expenses for the 2006 plan year (January 1 - December 31) based on expenses to date and any additional expenses expected before December 31. For this information, refer to medical bills, financial and bank records, and this year's Explanation of Benefits statements (EOBs).

Insured Expenses	2005	Estimated 2006
Insurance deductibles	\$ _____	\$ _____
Insurance copayments	\$ _____	\$ _____
Dental copayments	\$ _____	\$ _____
Expenses beyond benefit limitations/coinsurance	\$ _____	\$ _____

Out-of-Pocket Expenses

Immunizations, vaccinations	\$ _____	\$ _____
Birth control expenses	\$ _____	\$ _____
Routine exams and physicals not covered by insurance	\$ _____	\$ _____
Noncosmetic orthodontic expenses	\$ _____	\$ _____
Vision exams	\$ _____	\$ _____
Eyeglasses & contacts	\$ _____	\$ _____
Hearing exams/Hearing aids	\$ _____	\$ _____
Other _____	\$ _____	\$ _____
Other _____	\$ _____	\$ _____

Total projected out-of-pocket expenses for 2006 \$ _____

Total out-of-pocket expenses you are sure of and want to pay through a Medical FSA \$ _____

HOW MUCH MONEY SHOULD GO INTO MY DEPENDENT CARE FSA?

Use this worksheet to determine an appropriate Dependent Care FSA election.

Monthly Care Expenses	Estimated 2006
Infant/toddler	\$ _____
Preschool	\$ _____
Before and after school care	\$ _____
School vacations/holidays	\$ _____
Other dependent care	\$ _____
Total Monthly Expenses	\$ _____
	x 12

Total Annual Estimated Care Expenses=\$ _____

IMPORTANT!

Please be sure this amount divides by 24 evenly (the number of deductions in the plan year).